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Prime Minister
You may care to read the attached
by the producer of the
4 programs of the
advocates subscription
as an alternative to
licence and advertising

Brook Productions

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14th February 1985

John 25/2

Rt Hon Margaret Thatcher MP,
The Prime Minister,
10 Downing Street,
London SW1.

Dear Prime Minister,

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I thought you might like to know that the interview you gave on A WEEK IN POLITICS attracted the highest audience so far for our series, by some considerable margin.

I would also like to add a personal note of thanks for the kindness and consideration you showed towards the studio crew and my own production team.

Just in case you have time to read an independent producer's views on funding the BBC, I am enclosing a copy of an article that will appear in the March edition of Televisual.

Yours sincerely,

David Elstein

David Elstein
Executive Producer
A WEEK IN POLITICS

Enc.

Cards on the table.

I am an independent producer, having spent 14 years freelancing in ITV, and 4 at the BBC. As a potential co-producer and as a viewer, it is in my interests to see the BBC well run, amply financed and making high quality television. The cash crisis currently confronting the BBC needs to be resolved. It was entirely predictable. Sadly, the BBC failed to predict it, and even now offers only one solution, rejected overwhelmingly by government and public: increase the licence fee to £65.

Eight years ago, the Annan Committee reported the BBC's belief that it could manage on a 25% licence increase every 3 years in a period of 8% inflation, and every 6 years in a period of 4% inflation. The colour licence fee at the time was £18. Since then, we have seen licence fee increases of 16%, 19%, 36% and 35%, with another 41% increase currently being sought. Inflation has been below 5% for two years.

How could the BBC have so miscalculated? In the mid-70's, although the total number of TV licence holders was rising by only 1 or 2% each year, the proportion of these with a (more expensive) colour licence was rising by nearly 10% each year. It was this gearing which enabled the BBC to increase its income faster than the licence fee rose, and underlay the BBC's optimism to Annan. However, sooner or later - by the trend in the mid-70's, within 5 years - the proportion of colour licence holders would reach a maximum, and the hidden gearing would disappear. That has now happened.

The BBC today admits that, far from being able to manage within the going rate for inflation, there is currently a "broadcasting inflation rate" which exceeds the general inflation rate. Not only that: the BBC's wish to expand can no longer be financed out of the colour-licence gearing: it must be borne by an extra increase in the licence fee itself.

The chances of this government - intent on reducing both public expenditure and inflation - agreeing to a 41% increase in the licence fee must be zero. The BBC argues that the licence fee now costs 47% less in real terms than it did in 1968. This is demonstrably untrue. The correct figure is 25% less, but a £65 licence would represent 12.5% more than the 1968 level. Projecting current inflation rates to April, the BBC needs a £58 licence fee to restore its 1968 purchasing power.

The BBC has added to its discomfiture by now embarking on a public relations exercise wholly inappropriate to its political vulnerability. It might modestly have said to the government: "we are a fairly successful, reasonably efficient public service organization, with the right mix of programmes - to sustain ourselves, we need, inevitably, more resources - we prefer to rely on the licence fee alone - what do you suggest?"

Instead, it describes itself as "the best bargain in Britain": but which bargain is so good you would willingly pay 41% more for it? It claims to be Britain's most efficient programme-maker: but Channel Four's independent sector is unquestionably more efficient. It underlines its declining costs per hour: but any expanding organization should be able to reduce its unit costs.

Above all, in its campaign against advertising, it betrays its old arrogance with one of those too-clever-by-half slogans that so irritate the public: "you can't be a little bit pregnant". (Who remembers those jokes about cable and "wall-to-wall Dallas", now that the BBC has a corporate heart attack over losing Dallas to Thames?)

Although no-one at the BBC these days argues that advertising lowers editorial standards, the phrase carries implications of virginal purity that scarcely bear examination.

Low-cost chat shows have long been subsidized by writers and performers trading "plugs" for fees. Great swathes of BBC sports coverage are subsidized by sponsors. For years, BBC publications have earned millions from advertisements without sacrificing the BBC's independence. Nor does the "little bit pregnant" analogy even hold in the case of on-screen paid advertising: it can be limited in its scope and impact.

The BBC's argument depends on the assumption that advertising, once accepted, would eventually displace the licence fee: yet the only proposal currently in circulation is to freeze the licence fee, and let advertising fund everything that the BBC thinks it needs above its current income. If the target were, say, £200 millions, that could be easily raised without the BBC changing any programme in its current schedule, and, in all likelihood, without any significant impact on ITV rates, revenue or profits.

After all, in the last two years an extra £100 millions in advertising revenue has been raised to fund Channel Four and TV-AM, yet ITV profits are at record levels. At the very worst, the BBC could follow Channel Four's example, and preserve ITV's advertising monopoly in exchange for a guaranteed income. This may not suit the advertisers, but it has never been seriously argued - even by the agencies - that the purpose of the exercise is to force down advertising rather than solve the BBC's funding problem.

As the top media consultant, Harold Lind, has decisively demonstrated, 2 minutes per hour in BBC peak-time would earn £200 millions a year. To pretend that this would be the end of western civilization is foolish hyperbole.

All this is offered, not in a spirit of wishing advertising on a reluctant BBC, but to defuse the calamitous warnings uttered by BBC executives. The lack of rationality they display on this subject is revealed by the occasional remark let slip that "if we accept advertising, we might as well go the whole hog and put ITV out of business". Who worries about pregnancy on the way to an orgy? Advertising on the BBC, controlled and calculated, would undermine neither the BBC nor ITV. If the BBC wants to avoid advertising, the way to do so is not to sulk, or sound like Cassandra, but offer a better alternative.

Such an alternative exists. It was not considered by Annan, nor is it currently one of the options suggested by the BBC as it tries to ward off unacceptable substitutes for the licence, such as advertising or a Treasury grant. Yet it is so obvious a possibility that one is driven to the conclusion that it is not mentioned for fear of its transparent merits proving irresistible. That alternative is subscription.

The BBC claims to be the best bargain in Britain. It can prove its case in the market-place. With suitable notice (one year minimum), announce the abolition of the licence fee. Set the engineers to work at Sinclair, GEC, Racal and the like, designing a low-cost descrambler to be fitted to all televisions. Keep the costs of manufacture and distribution below the current annual £57 millions needed to run the licence system. Tell viewers they will be free to choose to subscribe to BBC TV, on (say) a bi-monthly basis (any less frequent and you encourage pirate manufacturers). Then scramble BBC TV signals.

The pure-ITV viewer will no longer feel disgruntled at paying the BBC for not watching its programmes. Multi-set owners - private and corporate, including hotels - will decide for themselves how many of their sets to make BBC-capable. Dodgers (currently evading £100 + millions each year in unpaid licences) will no longer be able to dodge. Discrimination against the poor and honest would cease. Subscription would be socially equitable and efficient: it would restore at a stroke the BBC's independence, so constrained by the need to haggle over the licence: but would it raise enough revenue?

It is already clear that consumers will pay premium amounts for cable, video-cassettes and other ancillary viewing opportunities. By comparison, BBC TV is outstanding value. Professor Ehrenburg, of the London Business School, reckons there would be a 75% take-up of a £104 annual subscription. By that standard, a £60 subscription would surely generate a 90% take-up. Add on the benefits of multiple subscription and elimination of evasion, and a £1,200 millions income is not unrealistic: equivalent to a £65 licence, without any of its disadvantages.

Above all, the BBC could decide for itself what balance of services it offers the public. The worst aspect of the present debate is that the wide opposition to a £65 licence gives the BBC's critics a field day: impose advertising, break up the structure, sell off local radio - all manner of unwelcome thrusts can be made at an unwilling corporation whilst it is the plaything of politicians. In the subscription market-place, there is only one critic the BBC need face: the viewer.

BBC funding

CONTINUATION